A

MODIFIED UNIVERSAL SERVICE AND ACCESS REFORM PROPOSAL

After having reviewed the comments and reply comments with respect to the CALLS proposal filed July 29, 1999 (as revised and clarified by Attachment A and B to the CALLS Comments), and having over the past several months discussed the proposal with numerous parties, including public interest groups, state utility commissioners and the staff of the Federal Communications Commission, the Coalition for Affordable Local and Long Distance Service modifies its proposal, as outlined below, to respond to the concerns that have been raised, and to provide even greater benefits for consumers. This modified proposal would be effective for 5 years, beginning July 1, 2000.

1. **<u>ILEC Recovery of Universal Service Contributions</u>.** As of July 1, 2000, price cap incumbent LECs (ILECs) will establish a separate rate element to recover universal service contributions.

   1.1. The USF rate element will be charged to all end users.

   1.2. The USF rate element may be assessed on a per line basis or as a percentage of interstate retail revenues, and at the option of the ILEC it may be combined for billing purposes with other end user retail rate elements.

   1.3. Upon implementation, ILEC USF assessments (a) are removed from existing price cap baskets at the same percentage adjustment as they went into the price cap baskets using adjustments accounting for demand, X- and "g"-factors, and (b) are not subject to the Price Cap formula in future years.

   1.4. An ILEC opting to assess the USF rate element on a per line basis may apply that charge using the "equivalency" relationships established for the multiline business PICC for Primary Rate ISDN service, as per FCC Rule 69.153(f)(2), and for Centrex lines, per FCC Rule 69.153(g)(1).

2. **<u>Common Line Rate Structure Simplification, Deaveraging of Common Line Rates and Universal Service</u>.**

   Overview: SLCs, PICCs and CCL charges are ultimately unified into a single charge, which can be deaveraged, but which will not exceed \$6.50 for residential and single line business lines and \$9.20 for multiline business lines during the five-year term of this proposal. Residential and Single Line Business End User and Presubscribed Interexchange Carrier Charges are combined into a single end user charge. For primary residential lines and single line business lines, the combined total in most areas will be \$4.35 on July 1, 2000. In subsequent years, the progression of changes in the SLC cap would be as follows: \$5.00 as of July 1, 2001; \$6.00 as of July 1, 2002; and \$6.50 as of July 1, 2003. The maximum Primary Residence/Single Line Business SLC in any zone is the lower of the nominal cap, or average price cap common line revenue per line (which includes all charges currently collected through SLCs, PICCs, and CCL charges, but does not include ILEC USF contributions) for the highest cost UNE zone in a study area. For non-primary residential lines, the combined total charge will be capped at the lower of \$7.00 or the greater of the current rate or average price cap common line revenue per line for the highest average revenue per line UNE zone in a study area.

For multiline business lines, End User and Presubscribed Interexchange Carrier Charges are not combined, and the Multiline Business (MLB) PICC will continue to be charged by the ILEC to the Interexchange Carrier. However, the MLB PICC falls dramatically for most companies as a result of reforms in other flat-rated common line charges, and the MLB PICC is eventually eliminated in most areas. Except where a carrier reduces the rate through voluntary reductions, multiline business SLCs initially will be frozen until the carrier's MLB PICC and CCL are eliminated.

After Primary Residence and Single Line Business SLC caps reach $5.00, the Commission should initiate a proceeding for the purpose of verifying that the progression of the change in the those SLC caps is appropriate in the particular UNE zone or zones where they would apply and that the progression reflects higher costs in those zones. At such time, the incumbent LEC CALLS members would provide economic data, including identifying the forward-looking costs associated with the provision of retail voice grade access to the public switched telephone network for those areas.[1]

Average Carrier Common Line charges immediately fall dramatically and are eventually eliminated in most areas as a result of an additional $650 million in universal service funding to replace implicit support currently in interstate access charges and of increasing the Primary Residential and Single Line Business SLCs.

Lifeline support would increase to hold Lifeline customers harmless against SLC rate restructuring.

SLCs can be deaveraged subject to certain limitations. Geographic deaveraging does not increase permitted price cap common line revenues (which includes all charges other than ILEC universal service contributions currently collected through SLCs, PICCs, and CCL charges). ILECs may only geographically deaverage their SLCs on the same geographic basis as state-approved UNE loop zones. ILECs can have up to 4 SLC zones, absent FCC review and approval. ILECs can choose which zones to consolidate if they have more than 4 UNE zones. SLCs in lower cost zones cannot be greater than SLCs in the same customer class in higher cost zones. Within a given zone, the Multiline Business SLC cannot fall below the Non-Primary Residential SLC, which cannot be less than the Primary Residential and Single Line Business SLC. For geographic deaveraging other than through voluntary reductions -- except if the Commission, after completion of the cost review and consideration of study area revenue per line and transitional universal service mechanisms, determines that the Primary Residence/Single Line Business SLC cap progression in a particular zone or zones is not appropriate and sets a different cap for that zone or zones -- an ILEC must eliminate its CCL and MLB PICC before it can begin geographically to deaverage the SLC within a study area, and an ILEC's deaveraged SLC in the lowest cost zone cannot be less than a minimum level. A deaveraged price cap common line revenue per line is calculated for each zone. The relative price cap revenue per line in each zone reflects the relative UNE rates in that zone,

1 Nothing herein alters or waives the CALLS members' positions with respect to the legality, definition, application or use of forward-looking costs.

and the level of revenue per line in each zone is such that the ILEC can recover total permitted price cap common line revenues.

The proposal provides new federal universal service support (separate and distinct from the current universal service support for high cost areas) of $650 million per year to replace implicit support in interstate access charges for price cap LECs. In any UNE loop deaveraging zone where the average common line revenue per line for that zone would exceed $7.00 per line for residential lines and $9.20 for multiline business lines, this additional interstate universal service support would provide a portion of the difference. This proportion would be set to target the overall amount of USF support to replace implicit support in interstate access rates for all price cap LEC areas at $650 million nationwide. The amount of universal service support to each study area is also adjusted on a three year phased-in basis so that by July 1, 2003, CCL and multiline business PICC charges will be eliminated in most areas served by price cap ILECs.

This new universal service funding would be portable to other eligible telecommunications carriers. The amount that would be portable for each line would be deaveraged by zone within any study area that receives such support.

Any new interstate USF funds to replace implicit support in interstate access charges for price cap LECs will first offset carrier common line charges, then offset multiline business PICC charges, and then offset amounts that would otherwise be collected through Subscriber Line Charges, which may then be deaveraged.

2.1. Reform and Simplification of Subscriber Line Charges (SLCs) and Presubscribed Interexchange Carrier Charges (PICCs).

2.1.1. Terms.

2.1.1.1. Price Cap Common Line, Marketing, TIC ("CMT") Revenue. Price Cap Common Line, Marketing, and TIC Revenue is the total revenue a filing entity would be permitted to receive for Subscriber Line Charges, Presubscribed Interexchange Carrier Charges, and Carrier Common Line Charges, with the exception of amounts pooled pursuant to paragraph **3.2.4.** Price Cap CMT Revenue includes marketing expenses presently collected pursuant to FCC Rule 69.156(a), and residual interconnection charge revenues collected through PICC charges, but it does not include the current recovery of incumbent LEC universal service contributions that are first removed from existing price cap baskets pursuant to paragraph 1.3.

2.1.1.2. Average Price Cap CMT Revenue Per Line. The Average Price Cap CMT Revenue Per Line is Price Cap CMT Revenue per month as of July 1, 2000 (after removal of recovery of ILEC universal service contributions pursuant to paragraph 1.3. and prior to adjustment for Interstate Access USF Support and application of X-factor reductions) using 1999 base period demand, divided by the base period 1999 lines. In filing entities with multiple study areas, if it becomes necessary to calculate the Price Cap CMT Revenue Per Line for a specific study area, then the Price Cap CMT Revenue Per Line for that study area is determined as follows, using base period demand revenues, BFPs and lines as of July 1, 2000:

$$PriceCapCMTRevenuePerLine_{StudyArea} =$$

$$PriceCapCMTRevenue_{FilingEntity} \times (BFP_{StudyArea} \div BFP_{FilingEntity}) \div Lines_{StudyArea}$$

2.1.1.3. Nothing in this definition precludes a price cap LEC from continuing to average rates across filing entities containing multiple study areas, where permitted under existing rules. Average Price Cap CMT Revenue Per Line will be adjusted each year to reflect exogenous adjustments, including from sales or acquisition of exchanges, and, if necessary, pursuant to paragraph 3.2.3.**Zone Average Revenue Per Line**. Zone Average CMT Revenue Per Line is the Price Cap CMT Revenue Per Line calculated for a particular state-defined zone used for deaveraging of UNE loop prices. The Zone Average Revenue Per Line is computed according to the following formula:

$$ZoneAverageRevenuePerLine = 25\%\left(Loop_{ZonePrice} + Port_{Price}\right) + U$$

Where:

U (Uniform Revenue Per Line Adjustment) =
$((PriceCapCMTRevenuePerLine_{StudyArea(s)} \times Base\ Period\ Lines_{StudyArea(s)}) - (25\%(Sum\ of\ (Lines_{UNEZone} \times Loop\&Port\ Price_{UNE\ Zone} \times 12)\ for\ all\ zones))) \div Base\ Period\ Lines_{Study\ Area(s)} \div 12$

Loop&Port Price[2] $_{UNE\ Zone}$ *= the UNE rates for unbundled loop and switch ports in that UNE zone.*

2.1.2. **Primary Residential and Single Line Business Charges.**

2.1.2.1. **Presubscribed Interexchange Carrier Charge.** Beginning on July 1, 2000, eliminate the primary residential line and single line business Presubscribed Interexchange Carrier Charge.

2.1.2.2. **Subscriber Line Charge.**

2.1.2.2.1. **Maximum Charge.** The maximum Averaged or Zone Deaveraged SLC that may be charged in any study area or zone is the lesser of the highest Zone Average Revenue Per Line within the study area, or a nominal cap, which as ofJuly 1, 2000 is $4.35 per line per month. Beginning on July 1, 2001, increase the nominal cap on

2 If the state has established two port rates, one for a port with features and one for a port without features, the applicable port rate is for a port without features.

primary residential and single line business Subscriber Line Charges according to the following schedule:

On July 1, 2001, to $5.00;

On July 1, 2002, to $6.00;

On July 1, 2003, to $6.50 per line.

2.1.2.2.2. **Minimum Charge.** See paragraph 2.1.5.6.2.

2.1.2.2.3. **Verification.** After SLC caps reach $5.00, the Commission should initiate a proceeding for the purpose of verifying that the progression of the change in the primary residence/single line business SLC caps beyond the $5.00 cap is appropriate in the UNE zone or zones where they would apply and that the progression reflects higher costs in those zones. At such time, the incumbent LEC CALLS members would provide economic data, including identifying the forward-looking costs associated with the provision of retail voice grade access to the public switched telephone network for those areas.[3] In the event the Commission determines that the progression of Primary Residence/Single Line Business SLC caps from the July 2001 cap of $5.00 in a particular zone or zones is not appropriate (i.e., not reflecting higher costs in that zone), the Commission will, by order, set an appropriate cap for that zone or zones. In a zone where the Commission has taken such action to change the applicable cap, the difference between the SLC cap that originally would have been applicable and the new SLC cap set by the Commission will not be included in the maximum permitted Averaged SLC for purposes of section 2.1.6., and that difference will be recovered through the other common line elements. In that event, the Commission should adjust the multiline PICC caps to the extent necessary to mitigate any change in CCL rates.

2.1.2.3. **Lifeline.** Increase minimum federal Lifeline support effective July 1, 2000, and coincident with changes in nominal SLC caps thereafter, so that all of the Subscriber Line Charge continues to be waived for Lifeline customers, with carriers reimbursed from the Universal Service Fund.[4] In subsequent years, increase minimum federal Lifeline

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3 Nothing herein alters or waives the CALLS members' positions with respect to the legality, definition, application or use of forward-looking costs.

4 Additional Lifeline support is estimated to be $55 million for the first year of the plan.

support in the same amount as increases in the primary residential Subscriber Line Charge.

2.1.3. **Non-Primary Residential Lines.**

2.1.3.1. Presubscribed Interexchange Carrier Charges. Beginning on July 1, 2000, eliminate the PICC for Non-Primary Residential lines.

2.1.3.2. Subscriber Line Charges.

2.1.3.2.1. Averaged Subscriber Line Charges. Beginning on July 1, 2000, the maximum averaged Subscriber Line Charge for non-primary residential lines in a given entity will be the lesser of:

(a) $7.00, or

(b) the greater of:

(1) the rate as of June 30, 2000 less amounts of SLC reduction pursuant to paragraph 2.1.6, or

(2) Average Price Cap CMT Revenue Per Line.

2.1.3.2.2. Zone Deaveraged Subscriber Line Charge.

2.1.3.2.2.1. **Maximum Charge.** The maximum Zone Deaveraged Non-Primary Residential Subscriber Line Charge will be the lesser of $7.00 per line per month or the highest Zone Average Revenue Per Line for any zone in the study area.

2.1.3.2.2.2. **Minimum Charge.** See paragraph 2.1.5.6.2.

2.1.3.2.3. Elimination of Distinction between Primary and Non-Primary Residential Lines. Once the charges for primary and non-primary residential lines are equal within a zone or study area, the ILEC may eliminate the distinction between primary and non-primary lines within that zone or study area.

2.1.4. **Multiline Business Lines.**

2.1.4.1. Presubscribed Interexchange Carrier Charges. The cap on the Multiline Business will be $4.31 per line on July 1, 2000.[5] Multiline Business PICCs remain assessed to the interexchange carrier. This charge will be eliminated over time in most areas pursuant to paragraph 2.1.6.

2.1.4.2. Subscriber Line Charges.

2.1.4.2.1. Averaged Subscriber Line Charges. Beginning on July 1, 2000, and in the absence of voluntary reductions, the averaged Subscriber Line Charge for multiline business lines in a given entity that has not deaveraged SLCs will be the lesser of:

(a) $9.20, or

(b) the greater of:

(1) the rate as of June 30, 2000, less amounts of SLC reductions pursuant to paragraph 2.1.6, or

(2) Average Price Cap CMT Per Line.

Except when the incumbent LEC reduces the rate through voluntary reductions, the averaged multiline business SLC initially will be frozen until the entity's multiline business PICC and CCL are eliminated.

2.1.4.2.2. Zone Deaveraged Subscriber Line Charge.

2.1.4.2.2.1. **Maximum Charge.** The maximum Zone Deaveraged Multiline Business Subscriber Line Charge will be the lesser of $9.20 per line per month or the highest Zone Average Revenue Per Line for any zone in the study area.

2.1.4.2.2.2. **Minimum Charge.** See paragraph 2.1.5.6.2.

2.1.5. **Limitations on Deaveraging of Subscriber Line Charges.** Except as otherwise noted, these limitations apply both to deaveraging pursuant to 2.1.6(4) and to deaveraging through voluntary reductions.

2.1.5.1. All Geographic Deaveraging According to UNE zones. All geographic deaveraging of SLCs by customer class must be done according to UNE zones. If a state has not created geographically

[5] If the Commission acts to establish a SLC cap lower than the proposed SLC caps, it may result in a higher CCL rate than would otherwise occur. The Commission should adjust the multiline PICC to the extent necessary to mitigate the change in CCL rates.

deaveraged UNE rates for loops, the incumbent LEC may not deaverage its SLCs in that state.

2.1.5.2. **<u>No More Than 4 Zones for Interstate Pricing and Interstate Universal Service Purposes Without FCC Approval</u>.** Solely for the purposes of determining interstate subscriber line charges and the interstate universal service funding described in Section 2.2, an ILEC may not have more than four geographic SLC/USF zones absent a review by the FCC. Where an ILEC has more than four state-created UNE zones and the FCC has not approved use of additional zones, the ILEC will determine, at its discretion, which state-created UNE zones to consolidate so that it has no more than four zones for the purpose of determining interstate subscriber line charges and interstate universal service funding.

2.1.5.3. **<u>Relationship Between Multiline Business, Non-Primary Residential And Primary Residential And Single Line Business SLCs Within A UNE Zone</u>.** Within a given UNE zone, the multiline business SLC may not be lower than the SLC for non-primary residential lines, and the non-primary residential line SLC may not be lower than the primary residential and single line business SLC.

2.1.5.4. **<u>Relationship Between SLCs for the Same Customer Class in Different UNE Zones in a Study Area</u>.** For any given customer class (i.e. Primary Residential and Single Line Business, Non-Primary Residential, or Multiline Business) and any given zone, the Zone Deaveraged SLC in that zone must be greater than or equal to the Zone Deaveraged SLC in the zone with the next lower Zone Average Revenue Per Line. (That is, Zone 4 SLCs must be greater than or equal to Zone 3 SLCs, which must be greater than or equal to Zone 2 SLCs, which must be greater than or equal to Zone 1 SLCs, where Zone 1 is the zone with the lowest Zone Average Revenue Per Line, and Zone 4 (if there is one) is the zone with the highest Zone Average Revenue Per Line).

2.1.5.5. **<u>Revenues From all Zones Cannot Exceed Revenues from Averaged SLCs</u>.**

The sum of all revenues per month that would be generated from all deaveraged SLCs in all zones within a study area plus Study Area Access Universal Service Support for that study area divided by the number of lines in that study area cannot exceed Average Price Cap CMT Revenue Per Line for that study area. In addition, the sum of revenues per month that would be generated from all deaveraged SLCs in all SLC deaveraging zones within a filing entity, plus revenues per month from all SLC, multiline business PICC and CCL charges from study areas within that filing entity that have not geographically deaveraged SLCs, plus the sum of all Study Area

Access Universal Service Support in all study areas within the filing entity, divided by the number of lines, cannot exceed Average Price Cap CMT Revenue Per Line for the filing entity.

2.1.5.6. **<u>Limitations Applicable Only To Zone SLC Deaveraging Pursuant To Paragraph 2.1.6, or Through Increases in Other Zone Deaveraged SLCs</u>.**

2.1.5.6.1. **<u>Elimination of PICC and CCL Prior to SLC Deaveraging</u>.** Except where an incumbent LEC deaverages through voluntary reductions -- and except if the Commission, after completion of the cost review and consideration of study area average revenue per line and transitional universal service mechanisms pursuant to 2.1.2.2.3, determines that the Primary Residence/Single Line Business SLC cap progression in a particular UNE zone or zones is not appropriate and sets a different cap for those zones -- before an incumbent LEC may geographically deaverage its SLC rates, its Originating and Terminating CCL and Multiline Business PICC rates in that study area must equal $0.00. Deaveraging through voluntary reductions may be undertaken without regard to the levels of the CCL or Multiline Business PICCs.

2.1.5.6.2. **<u>Minimum Charge</u>.** Except where the incumbent LEC chooses to lower the deaveraged SLC through voluntary reductions, the minimum Zone Deaveraged Subscriber Line Charge in any zone in a study area is at least the lowest Minimum SLC for any zone in that study area. Minimum SLC is Zone Average Revenue Per Line adjusted to recover the difference between Study Area Universal Service Support (as defined in paragraph 2.2.3.2) and Study Area Above Benchmark Revenues (as defined in paragraph 2.2.3.1.2.) first from lines in Zone 1, until the SLCs in Zone 1 equal to the SLCs for Zone 2, and then from lines in Zones 1 and 2 equally until SLCs in those zones reach the Zone 3 SLC rates (with all SLCs subject to the applicable residential and multiline business lines nominal caps). This is done as follows:

(1) Determine the difference between Study Area Above Benchmark Revenues and Study Area Universal Service Support.

(2) Apply the difference calculated in Step 1 to increase the Zone 1 minimum SLC until either the entire difference has been offset, or the Zone 1 minimum

Zone Deaveraged Subscriber Line Charge equals Zone Average Revenue Per Line for Zone 2.

(3) Apply any remaining difference not offset by Step 2 to increase the minimum Zone Deaveraged Subscriber Line Charge in both Zone 1 and Zone 2 until either the entire remaining difference has been offset, or the minimum Zone Deaveraged Subscriber Line Charge for Zones 1 and 2 equals Zone Average Revenue Per Line for Zone 3.

(4) Apply any remaining difference not offset by Step 3 to increase the minimum Zone Deaveraged Subscriber Line Charge for Zone 1, Zone 2 and Zone 3 until either the entire remaining difference has been offset, or the minimum SLC for Zones 1, 2 and 3 equals Zone Average Revenue Per Line for Zone 4.

The parties agree that current law governs any further minimum price restrictions on geographic deaveraging through voluntary reductions, and any party may, as under current law, seek to have a proposed tariff declared unlawful either in the tariffing process or pursuant to a complaint.

2.1.5.6.3. **<u>Voluntary Reduction.</u>** A "Voluntary Reduction" is one in which the incumbent LEC reduces prices other than through offset of net increase in subscriber line charge revenues or universal service revenues pursuant to paragraph 2.1.6, or through increases in other zone deaveraged Subscriber Line Charges.

2.1.6. **<u>Phased Elimination of Carrier Common Line and Multiline Business Presubscribed Interexchange Carrier Charges, and SLC Deaveraging.</u>** Each year, the net increase in maximum permitted Subscriber Line Charge revenues (calculated by summing across all line classes in a study area the products of the maximum permitted Averaged Subscriber Line Charge for each class, times the number of lines in each class, times 12, and subtracting the sum across all line classes in a study area the products of the maximum permitted Averaged Subscriber Line Charge during the base period for each class, times the number of lines in each class, times 12) from changes specified in paragraph 2, and any universal service revenues received pursuant to paragraph 2.2, will be offset by reducing other charges as follows, in order of priority:

(1) Terminating CCL Charges until the Terminating CCL rate is $0.00; then

(2) Originating CCL Charges until the Originating CCL rate is $0.00; then

(3) Multiline Business PICC until the Multiline Business PICC rate is $0.00; then

(4) Subscriber Line Charges, which may be deaveraged pursuant to paragraph 2.1.5, above.

Note: This is the existing order of offsets, once the residential (primary and non-primary) and single line business PICCs are stricken.

2.2. <u>New Universal Service for Areas Served by Price Cap Incumbent LECs.</u>

2.2.1. **<u>Implicit Support in Interstate Access Charges by Price Cap LECs.</u>** The total amount of universal service funding to offset implicit support in interstate access charge rates ("Interstate Access USF") for areas served by price cap incumbent LECs is targeted to be $650 million per year.[6] This size for Access USF assumes a nominal residential and single line business benchmark of $7.00, and a nominal multiline business benchmark of $9.20 for multiline businesses. It also assumes that all price cap LECs are included. It also assumes that the new program will cover the areas currently served by all price cap LECs, except those offered for sale before January 1, 2000, and sold to a non-price cap company. If any such area does not participate in the program, either because the price cap LEC does not participate, or because the area is offered for sale after January 1, 2000, and sold to a non-price cap company, then the funding estimated for that area pursuant to paragraph 2.2.3.1.1 will not be collected or distributed as part of this plan for price cap LECs.

2.2.2. <u>Preliminary Minimum Access $USF_{StudyArea}$</u>. For each study area, the preliminary minimum amount of Access USF support that study area would receive is calculated as follows:

If Average Price Cap CMT Revenue Per Line Per $Month_{Study\ Area}$ is greater than $9.20 then:

Preliminary Minimum Access USF $_{study\ area}$ = Price Cap CMT Revenue study area –

(($7.00 X ILEC Residential $_{[6]}$& Single Line Business $Lines_{Study\ area}$ X 12) + $9.20 X ILEC Multiline Business Lines $_{study\ area}$ X 12))

If Average Price Cap CMT Revenue Per Line Per $Month_{Study\ Area}$ is greater than $7.00 but less than $9.20 then:

Preliminary Minimum Access USF $_{study\ area}$ = (Average Price Cap CMT Revenue Per Line Per Month $_{Study\ Area}$ - $7.00) X (<u>ILEC</u> Residential & Single Line Business $Lines_{study\ area}$ X 12)

6 New federal universal service support to replace implicit support in interstate access charges by price cap LECs does not include support calculated under FCC Rules 54.301 (DEM Weighting), 54.303 (Long Term Support), or 36.601 et seq. (Part 36 Universal Service Fund), or support expressly designated by the FCC to offset costs allocated to the intrastate jurisdiction.

If Average Price Cap CMT Revenue Per Line Per Month$_{\text{Study Area}}$ is less than $7.00 then:

Preliminary Minimum Access USF $_{\text{study area}}$ = zero.

2.2.3. Calculation of Access USF Per Line.

2.2.3.1. Terms.

2.2.3.1.1. Zone Above Benchmark Revenues. For each zone, the above benchmark revenues for that zone are calculated according to the following formula:

ZoneAboveBenchmark Revenues =
*((ZoneAverageRevenuePerLine - $7.00) x All Eligible Telecommunications Carrier Residential&SingleLineBusinessLines*$_{StudyArea}$ *x 12) + ((ZoneAverageRevenuePerLine - $9.20) x All Eligible Telecommunications Carrier MultilineBusinessLines*$_{StudyArea}$ *x 12)*

The zones used for determining universal service will be the same zones that would be used for any SLC deaveraging, as described in paragraph 2.1.5.2. Where an ILEC has consolidated zones pursuant to paragraph 2.1.5.2, the consolidated zone is used for determining universal service.

(a) For the purposes of distributing Access USF, Zone Average Revenue Per Line should be calculated pursuant to paragraph 2.1.1.3, except that there should be a one-year lag for exogenous adjustments other than those related to sales or purchases of exchanges. This lag is necessary to accommodate the tariff filing schedule.

(b) In states that have not established UNE zones, support will be determined on a study area basis, as described in paragraph 2.2.3.3. For purposes of calculating Access USF support for study areas in states that have not established UNE zones, an interim estimate of Zone Above Benchmark Revenues will be calculated by using the FCC Proxy Cost Model or other substitute method if no model is available. In order to develop this estimate, zones will be established by assigning the lowest cost one third of lines to Zone 1, the highest cost one third of lines to Zone 3 and the remaining lines to Zone 2.

2.2.3.1.2. **Study Area Above Benchmark Revenues.** For each study area, Study Area Above Cap Revenues is calculated by summing the Zone Above Benchmark Revenues for all zones in the study area.

2.2.3.1.3. **Nationwide Total Above Benchmark Revenues.** Nationwide Total Above Benchmark Revenues is the sum of all Study Area Above Benchmark Revenues nationwide for all price cap incumbent LEC study areas.

2.2.3.2. **Study Area Access USF Support.** Each study area's Interstate Access USF support is calculated according to the following steps:

Step 1: Calculate Preliminary Access USF Support

Preliminary Access USF Support is calculated according to the following formula:

$$\text{PreliminaryStudyAreaUniversalServiceSupport} =$$

$$\text{StudyAreaAboveBenchmarkRevenues} \times \left(\frac{\$650\,million}{\text{TotalNationwideAboveBenchmarkRevenues}} \right)$$

Step 2: Calculate the Minimum Support Requirement.

If the Preliminary Minimum Access $USF_{\text{Study Area}}$[7] exceeds the Preliminary Study Area Universal Service Support ("PSAUSS") then the Minimum Support Requirement for that study area is calculated using the following process:

A. For each study area, calculate the Study Area Minimum Delta. Study Area Minimum Delta = Minimum Access $USF_{\text{Study Area}}$ – Preliminary Study Area Universal Service Support.

B. Nationwide, calculate the Total National Minimum Delta, which equals the sum of all Study Area Minimum Deltas.

C. (1) If the Total National Minimum Delta is less than or equal to $75 million then the Minimum Adjustment Amount is:

Minimum Adjustment Amount = Phase In Percentage x Minimum Delta.

(2) If the Total National Minimum Delta is greater than $75 million, then the Minimum Adjustment Amount is:

7 *See* paragraph 2.2.2.

$$\text{Minimum Adjustment Amount} = (PhaseInPercentage) \times (MinimumDelta) \times \left(\frac{\$75 million}{TotalNationalMinimumDelta} \right)$$

The Phase In Percentage is:

50%	on	July 1, 2000
75%	on	July 1, 2001
100%	on	July 1, 2002

For those study areas with a Minimum Adjustment Amount, the Minimum Support Requirement is:

Minimum Support Requirement = Preliminary Study Area Universal Service Support + Minimum Adjustment Amount.

Step 3: Determine the Study Area Universal Service Support.

For study areas with a Minimum Support Requirement, Study Area Universal Service Support equals Minimum Support Requirement.

For study areas with no Minimum Support Requirements:

(1) Determine the Total National Minimum Support Requirement (TNMSR), which equals the sum of all Minimum Support Requirements.

(2) Study Area Universal Service Support is determined as follows:

Study Area Universal Service Support =

$$PSAUSS \;\; x \;\; \left(\frac{\$650 million - TNMSR}{NationwideSumofPSAUSSforStudyAreaswhereMSRis\$0} \right)$$

The above calculations ensure that the total Interstate Access USF Support is targeted to \$650 million while the Study Area Minimum Support Requirements are phased in.

2.2.3.3. <u>No Access USF Above The Minimum Support Requirement For A Study Area That Has No Zone Deaveraged Prices For UNE Loops.</u> Notwithstanding the calculations in paragraph 2.2.3.2, in any study area for which the incumbent LEC has not established zone deaveraged UNE loop prices approved by the state, that study area will receive the lesser of Study Area Universal Service support as calculated pursuant to Step 3, or the Preliminary Minimum Access

USF. If an incumbent LEC establishes deaveraged UNE loop prices after May 1, 2000, then beginning with the subsequent quarter after it implements deaveraged UNE loop rates, that entity will receive the amount of Access USF support previously calculated pursuant to paragraph 2.2.3.2 using the methodology described in paragraph 2.2.3.1.1(b). When Access USF support is subsequently recalculated to redistribute Access USF among Price Cap ILEC service territories, support for that entity will be calculated pursuant to paragraph 2.2.3.1.1.(a).[8]

2.2.4. **Determination of Interstate Access USF Support Per Line.** Interstate Access USF Support Per Line is the amount per supported line (determined including all Eligible Telecommunications Carrier lines) of new interstate universal service funding to replace implicit support in interstate access that an eligible telecommunications carrier receives for serving a customer. This support is portable between eligible telecommunications carriers as customers change service providers.

2.2.4.1. **Interstate Access USF Support Per Line When Deaveraged UNE Loop Rates Have Not Been Established.** When Deaveraged UNE Loop Rates have not been established in a study area, the Interstate Access USF Support Per Line for that study area is the lesser of Study Area Universal Service Support or the Preliminary Minimum Access USF divided by total lines (all eligible telecommunications carriers) in the study area.

2.2.4.2. **Interstate Access USF Support Per Line When Deaveraged UNE Loop Rates Have Been Established.**

Highest Cost Zone First. The funding in each study area will be made portable for lines in the highest cost zone first, and will "cascade" to lines in lower cost zones to the extent that sufficient funding is available. Beginning with the zone with the highest Zone Average Revenue Per Line, funding will be applied in the following order of priority:

(1) To all lines in the highest zone, to eliminate the amount per line by which Zone Average Revenue Per Line exceeds the higher of $9.20 or the Average Revenue Per Line in the next highest zone;

(2) If the Zone Average Revenue Per Line in the next highest zone is greater than $9.20, then to all lines in both zones to eliminate the amount per line by which Zone Average Revenue per Line exceeds $9.20;

[8] As stated in paragraph 5, nothing in this proposal supercedes, prejudices or otherwise implies a result of the UNE Remand proceeding.

(3) To all residential and single line business lines in the highest zone, to eliminate the amount per line that Zone Average Revenue Per Line for these lines exceeds the higher of $7.00 or Average Revenue Per Line in the next highest zone;

(4) If the Zone Average Revenue per Line in the next highest zone is greater than $7.00, then to all residential and single line business lines in both zones to eliminate the amount per line by which Zone Average Revenue Per Line exceeds $7.00.

This "cascade" process will continue until all of the available funding has been assigned to lines by zone and by customer class; it may extend in similar fashion to additional zones, to the extent that their Zone Average Revenue per Line exceeds the $9.20 and $7.00 caps, and available funding permits. The per-line amount assigned to each multiline business line in a given zone would then be portable among eligible telecommunications carriers, as would the per-line amount assigned to each residence line and each single line business line in that zone.

2.2.5. **Commencement of New Access USF Support.** Universal service distributed pursuant to this section will begin once administrative mechanisms have been established to transfer support among eligible telecommunications carriers in the shortest interval possible given reasonable operational considerations. The parties agree that a three-month lag may be reasonable, provided that an ILEC's entitlement to receive Access USF for service to that customer stops when service stops, and that there are true-ups.

2.2.6. **Recalculation of Access USF Amounts.** Access USF support for each ILEC service territory will be recalculated on July 1, 2000, January 1, 2001, July 1, 2001, and thereafter as determined by the USF Administrator, but at least annually.

3. Reducing Traffic Sensitive and Special Interstate Access Rates.

3.1. Target Traffic Sensitive Interstate Access Charge Rate.

3.1.1. Beginning on July 1, 2000, the participating price cap incumbent LECs will calculate the Average Traffic Sensitive (ATS) rate as the sum of the Local Switching component and the Transport component.

The Local Switching component will be calculated by dividing the proposed Local Switching revenues (Local Switching, LS trunk ports, Information Surchage, and STP Port) by the base period Local Switching MOUs.

The Transport component will be calculated by dividing the proposed Transport revenues (Switched Direct Trunk Transport, Signaling for Switched Direct Trunk Transport, Entrance Facilities for Switched Access Traffic, Tandem Switched Transport, Signaling for Tandem Switching and TIC) by ILEC only base period Transport MOUs (including meet-point billing arrangements for jointly-provided interstate access by an incumbent LEC and any other LEC).

For the purposes of determining whether the average traffic sensitive charge has reached the target rate, the calculations should include all the relevant revenues and minutes for services provided under generally available tariffs and services provided under contract tariffs. If in the future an access customer can use UNEs in lieu of switched access service for service other than to its local service end user, the revenues and demand for UNEs used to provide switched access services would be included in the calculation of the ATS rate. To the extent that UNEs are used to provide interstate access for CLEC end users for whom the CLEC is not also providing local service, the ILEC will measure such traffic or obtain from the CLEC a CLEC self-report of that demand and associated revenues.

3.1.2. **Bell Companies and GTE.** For Bell Companies and GTE, the Target Rate for the Average Traffic Sensitive Rate is calculated by tariff filing entity and is \$0.0055 per minute for each tariff filing entity. For Bell Atlantic, the former NYNEX telephone companies may be treated as a separate tariff filing entity.

3.1.3. **All Other Price Cap ILECs.** For all other price cap ILECs, the Target Rate for the Average Traffic Sensitive Rate is calculated by tariff filing entity and is \$0.0065 per minute. In addition, CALLS members are continuing to discuss whether another target would be appropriate for an entirely rural price cap company, and whether such a target can be created without also creating an undue incentive to transfer exchanges between price cap companies with different target rates.

3.2. **Interstate X-Factor Levels and Targeting of X-Factor Reductions Effective July 1, 2000.** The basic regime set up under this section is that all the price cap reductions, other than reductions to special access, flowing from an X-factor of 6.5% are initially targeted to reduce traffic sensitive charges until those charges reach the Target Rate (\$0.0055 per minute by tariff filing entity for Bell Companies and GTE, and \$0.0065 per minute by tariff filing entity for other price cap ILECs). When the filing entity's average traffic sensitive switched interstate access charge reaches the Target Rate, then the X-factor becomes equal to GDP-PI. All X-factor targeting is done at the tariff filing entity level, not at a holding company level.

3.2.1. Except as provided in paragraph 3.2.7. for special access elements, the interstate X-factor will be 6.5% until a Tariff Entity's average traffic sensitive access charge equals the Tariff Entity's Target Rate. If a new element is created from an existing switched access rate element (such as creating a call set-up charge out of the existing local switching rate) the revenues anticipated from that element will be included in the calculation of the average traffic sensitive access charge. With respect to services other than special access, the X-factor of 6.5% will be applied only to the extent necessary to reduce the Tariff Entity's average traffic sensitive access charges to the Target Rate for the first time. Once the

Tariff Entity's average traffic sensitive access charges reach the Target Rate for the first time, the X-factor will be GDP-PI.

3.2.2. Until a Tariff Entity's average traffic sensitive interstate access charge equals the Target Rate, the aggregate reductions within a given tariff filing entity from application of the X-factor adjustment in the price cap formula across all of that entity's interstate price cap baskets, other than special access elements, will be targeted to reduce the following rates for that tariff filing entity, in order of priority:

(1) To the residual per minute Transport Interconnection Charge, until that rate is $0.00; then

(2) To the Information Surcharge, until that rate is $0.00; then

(3) To the Local Switching charge and Switched Transport charges until the Tariff Entity's average traffic sensitive interstate access charge equals the Target Rate. In making these reductions to Local Switching rates, the percentage of total X-factor reductions directed to Local Switching rates must be greater than or equal to the percentage that local switching revenues represent of the sum of revenues for Local Switching, Local Switching Trunk Ports, Signaling Transfer Point Port Termination, switched Direct Trunk Transport, signaling for switched Direct Trunk Transport, entrance facilities for switched access traffic, Tandem Switched Transport, and Signaling for Tandem Switching (i.e., Local Switching gets at least its proportionate share of reductions).

Once the Tariff Entity's average traffic sensitive interstate access charge equals the Target Rate for the first time, no further reductions will be mandated (i.e. if applying the full X-factor reduction for a given year would reduce average traffic sensitive interstate access charges below the Target Rate, the amount of X-factor reduction applied that year will be the amount necessary to reach the Target Rate).

In calculating aggregate X-factor reductions, the Price Cap formula should be applied against the entire common line basket, without removing amounts received through the new interstate universal service support pursuant to paragraph 2.2.

3.2.3. **CMT Adjustments After Reaching Target Rate.** Once the tariff entity average traffic sensitive access charge equals the target rate, the X-factor for the CMT Basket will equal GDP-PI as long as GDP-PI is less than or equal to 6.5 percent and greater than 0 percent. If GDP-PI is greater than 6.5% and an entity has eliminated its CCL and multiline business PICC charges, the X-factor for common line will equal 6.5%, and all SLC rates and nominal caps on SLC rates will be increased by the difference between GDP-PI and the X-factor. If GDP-PI is less than 0, the X-factor for common line will be 0.

3.2.4. **Additional One-Time Switched Access Reductions.** Switched access usage charges (including Average Traffic Sensitive Charge rates and carrier common line charges but excluding SLCs and PICCs) will fall by $2.1 billion on July 1, 2000, assuming all price cap companies participate. After all other changes from this plan are made, additional reductions to Average Traffic Sensitive Charge rates necessary to achieve a total of $2.1 billion reduction in switched access usage charges on July 1, 2000 would be calculated as a percentage of the local switching element of all price cap LECs, but carriers could take these reductions against any of the Average Traffic Sensitive Charge rate elements, provided that they still generated the same amount of reductions. This additional reduction will not reduce a filing entity below its Target Rate. At least a proportionate share of the additional reduction in Average Traffic Sensitive Charge rates will be taken to local switching rates. These additional reductions to Average Traffic Sensitive Charge rates would not be offset by increases in other rate elements, except for limited safeguards for smaller rural carriers and to provide for an orderly transition for carriers facing disproportionate initial reductions per line. This yields additional consumer savings.

3.2.4.1. **Safeguard for Smaller Rural Carriers.** In order to provide additional stability for rural study areas served by the smaller price cap carriers during this transitional period, $0.0065 (i.e. "mid-sized") price cap carriers with at least 20% of total holding company lines serving statutory "rural" study areas may elect to pool up to the following amounts:

i. for that carrier's predominantly non-rural filing entities, the amount of the additional reductions to Average Traffic Sensitive Charge rates necessary to yield those filing entities' proportionate share of a total $2.1 billion reduction in switched access usage rates on July 1, 2000, to the extent such reductions exceed 25% of the Local Switching element revenues as of July 1, 2000 before application of price cap adjustments and other changes under the plan;

ii. for that carrier's predominantly rural filing entities, the amount of the additional reductions to Average Traffic Sensitive Charge rates necessary to yield those filing entities' proportionate share of a total $2.1 billion reduction in switched access usage rates on July 1, 2000;

subject to a maximum of the amount that the carrier can recover from common line elements other than primary residence/single line business SLCs and CCL across all filing entities within that holding company without exceeding the nominal caps on those elements ("pooled amounts"). The pooled amounts may be recovered across common line elements other than primary residential single line business SLCs and CCL within the same holding company. The pooled amounts will offset a portion of that carrier's additional reductions (i.e., those taken after all other changes resulting from the plan) to Average Traffic Sensitive Charge rates necessary to achieve that carrier's portion of a price cap LEC total of $2.1 billion reduction in switched access usage charges on July 1, 2000. The additional reductions in excess of pooled amounts will be taken without offset. Nothing in this provision reduces the total drop in a carrier's Average Traffic Sensitive Charge rates or CCL rates on July 1, 2000. The pooled amounts and the recovery thereof do not affect calculations of universal service support. We understand that in the proceeding the Commission initiates after July 1, 2001, the Commission will review whether retaining this pooling or transferring the pooled amounts to common line is appropriate.

3.2.4.2. **Transitional Safeguard for Companies with Above Average Initial Reductions.** In order to provide for an orderly transition, any price cap company with reductions per line at the holding company level greater than the industry average at the holding company level may elect temporarily to pool the amount of the additional reductions to Average Traffic Sensitive Charge rates necessary to yield that carrier's proportionate share of a total $2.1 billion reduction in switched access usage rates on July 1, 2000, to the extent such reductions exceed 25% of the Local Switching element revenues as of July 1, 2000 before application of price cap adjustments and other changes under the plan. The pooled amounts may be recovered across common line elements other than primary residence/single line business SLCs and CCL within the same filing entity, provided that the carrier agrees that an X-factor of 6.5 would continue for that filing entity until Average Traffic Sensitive Charge reaches the applicable target rate and the pooled amount is eliminated. Nothing in this provision reduces the total drop in a carrier's Average Traffic Sensitive Charge rates or CCL rates on July 1, 2000. The pooled amounts and the recovery thereof do not affect calculations of universal service support.

3.2.5. **Exogenous Adjustments.** After July 1, 2000, exogenous adjustments will be applied only to services other than those constituting traffic sensitive interstate access charges.

3.2.6. **Annual Filings After Reaching Target Rate.** With each annual filing, the Average Traffic Sensitive Rate will be recalculated and set at the new base period level. Due to changes in base period demand and inclusion of new services for that Annual Tariff filing, the absolute level of a Tariff Entity's Average Traffic Sensitive Charge may change. The resulting new Average Traffic Sensitive Charge level will be what that Tariff Entity will measured against during that base period. This prevents a carrier from increasing Average Traffic Sensitive charge elements that may be in the same basket as other elements (e.g. special access) as a result of price reductions in those other elements.

3.2.7. **Special Access**. Rates for special access services will be reduced according to the applicable price cap mechanisms using an X-factor equal to 3.0% in 2000, and an X-factor equal to 6.5% in 2001, 2002, and 2003. Thereafter, there will be a price cap freeze for special access (i.e. X equals inflation).

3.2.8. **No February 2001 Cost Studies.** ILECs are no longer required to file cost studies on February 8, 2001, as otherwise would be required by paragraph 267 of the *Access Reform First Report and Order* (adopted May 7, 1997). Paragraph 267 of the First Report and Order is rescinded.

4. **Other Changes to Interstate Access Charge Rate Levels.**

4.1. **Changes to the Interstate X-factor**. No company will advocate changes to the interstate X-factor other than as outlined in paragraph 3.

4.2. **Prospective Interstate Adjustments.** The companies agree that Paragraphs 2-3 are a just, reasonable and fair means of moving usage sensitive interstate access rates to a point achieved by the above mechanisms. Therefore, other adjustments, such as changes in the interstate X-factor, changes in interstate access rates for price cap ILECs based on results of present or future Continuing Property Records audits, changes in interstate access rates for price cap ILECs based on changes in the Prescribed Rate of Return, and changes in the rate structure for Common Line, Traffic Sensitive (Local Switching, Local Switching Trunk Ports, Signaling Transfer Point Port Termination, switched Direct Trunk Transport, signaling for switched Direct Trunk Transport, entrance facilities for switched access traffic, Tandem Switched Transport, the residual and service-related Transport Interconnection Charges, Information Surcharge, and Signaling for Tandem Switching) and Other (all other interstate access charges not included in Common Line or Traffic Sensitive, as defined here) charges by price cap ILECs, are unnecessary. Nothing in this agreement precludes implementation of a separations freeze based on current separations factors.

4.3. **Retrospective Interstate Adjustments.** The companies also agree not to initiate legal or regulatory action to adjust price cap determined rates for interstate access charges billed for access minutes prior to January 1, 2000, although a payee would not be precluded from accepting any refund the FCC ordered to be made and a payor will not object to or resist such a refund on the basis of this paragraph.

4.4. **Lower Formula Adjustments**. A participating price cap LEC waives the Lower Formula Adjustment to interstate access rates for rates charged during the tariff year beginning July 1, 2000, but not for subsequent years.

4.5. These agreements in paragraph 4 will run until July 1, 2005.

5. **Long Distance Rates and SLC Changes.** This interstate access and universal service plan is in the public interest because the interstate access reductions the plan produces will result in lower long distance bills while the SLC and universal service revenues the plan produces

will help to protect and enhance universal service and the local exchange infrastructure. The IXC signatories have separately and unilaterally met with the other interested parties, including state commissioners and FCC staff, to review the effects of the interstate access reductions under the plan on long distance customers, and have separately and unilaterally filed letters addressing long distance rates **[cite AT&T and Sprint letters]**. The incumbent LEC signatories have met with other interested parties, including state commissioners and FCC staff, to review effects of the SLC increases and SLC deaveraging under the plan on local customers, and on that basis propose the changes herein.

6. **Non-Signatory Price Cap LECs.** The signatories agree that this proposal, without modification, is a fair and reasonable compromise plan to resolve issues relating to access and universal service for price cap LECs. Accordingly, signatories agree on behalf of themselves and their current affiliates to participate in the proposal if it is approved by the FCC.

   The signatories agree that non-signatory price cap LECs are not bound by the terms of this plan and that the access rules that will apply solely to non-signatory price cap LECs will be determined by the FCC. All companies, whether signatories or not, would remain free to advocate for whatever changes, if any, are appropriate to the current price cap rules that would apply only to non-signatory price cap LECs.

   At their option, price cap LECs that are non-signatories to the proposal at the time of its submission may chose to become signatories to the proposal prior to its implementation following an FCC Order.

7. **Consumer Education Program**. CALLS will work with the FCC's Consumer Information Bureau to develop a consumer education program.